B5350-2

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 25, 1984 VOLUME XXI, NUMBER 25

"Flash" GNP Estimate . . .

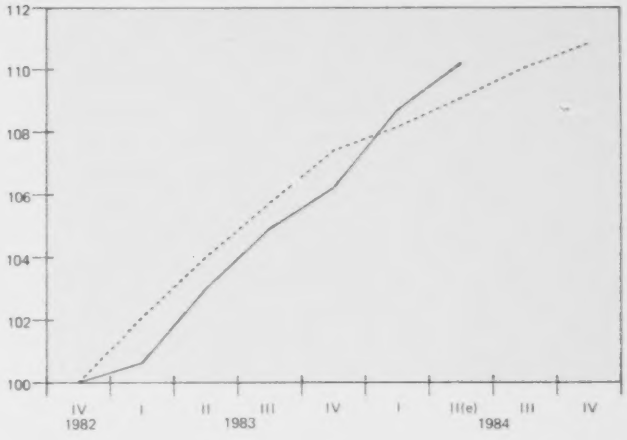
To those hoping for a slowing of U.S. economic growth because of concern about both an overheated economy and the inflationary implications of surging credit demands, the so-called "flash" estimate of real GNP growth in the second quarter provided some comfort, but not much. According to the Commerce Department's report, the economy expanded at an inflation-adjusted 5.7 percent annual rate in the quarter now ending, four percentage points below the upward revised 9.7 percent pace of the first quarter. Although the lower growth rate indicates a moderation of the momentum in the economy—typical for this stage in the business cycle—it also implies that business activity is both strong and better balanced than in the first quarter.

Strong gains in consumer spending have now combined with gains in business capital investment. Real final sales in the second quarter appear stronger than in the first quarter of 1984 when GNP growth mainly reflected a sharp rise in inventory investment. Real inventory investment increased by a record $22 billion in the first quarter—contributing 60 percent to the $36.8 billion rise in real GNP. Final sales, obviously, generated the remainder. Undoubtedly, the restocking of shelves is not completed, but the change in inventories was not as high in the April-June period as it was in the previous three months. Since slower inventory building reduces real GNP performance, for real GNP to grow at the current estimate of 5.7 percent, real final demand has to have increased at a higher rate.

. . . Depicts Continued Strong Growth . . .

At the year and a half mark, the ongoing recovery has proven to be stronger than the average of the seven previous postwar recoveries at similar points. Since the upturn in business activity began at the end of 1982, inflation-adjusted GNP has risen 10.2 percent, compared with an average of 9.1 percent at this stage of the other postwar expansions. The annual rate of rise in real GNP of 9.7 percent in this year's first quarter was more than double the rate of increase in the fifth quarter of typical business recoveries in the postwar era, while the flash estimate of 5.7 percent in the current quarter is also higher than the average rate of growth in the output of goods and services that occurred in the sixth quarter of these other postwar upturns.

REAL GROSS NATIONAL PRODUCT
CURRENT RECOVERY (LINE), AVG. OF 7 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



The flash report offers merely the government's first attempt to estimate the growth of the nation's output of goods and services. This estimate is based on preliminary data for about half of the quarter and is subject to extensive revisions as more and better data become available. But those who hope to find solace in the months ahead in potential downward revisions of the second quarter "flash" GNP figure, may be disappointed again. This is because in ten of the past 13 quarters, the Commerce Department has underestimated the strength of business activity in its flash estimates. In the third quarter of 1981, for example, the difference between the final revision and the flash estimate was as much as 4.1 percentage points. In the first quarter of this year, the flash report underestimated real output by 2.5 points.

DIGEST GOES BIWEEKLY

The Financial Digest will be published biweekly during July and August. The next issue will be dated July 9.

Copyright 1984
Manufacturers Hanover Trust Company
270 Park Avenue, New York, N.Y. 10017

. . . And Less Inflation

The good news about real activity was complemented by favorable news on inflation. The Commerce Department also reported that the implicit GNP price deflator—the broadest measure of inflation—is believed to be rising at a seasonally adjusted 2.8 percent annual rate in the second quarter, below the 3.9 percent clip of the first quarter—which was low to begin with. Meanwhile, the Labor Department also reported that producer prices remained unchanged in May for the second consecutive month while consumer prices advanced a modest 0.2 percent.

The stronger-than-expected pace of business activity in the current quarter not only disappointed many forecasters, but also unsettled the credit markets. Once again, Wall Street demonstrated that it prefers to march to the tune of a different drummer than Main Street, shrugging off what would normally be exceptionally good news: A business expansion which remains solidly on tract with only modest rates of inflation.

Personal outlays, which represent two-thirds of the GNP, remain the driving force behind current economic growth. Buoyed by gains in employment and income and only moderate inflation, consumer expenditures on durables, nondurables and services climbed a strong 1.1 percent in May, following a 1.6 percent surge in April. Although money market rates have climbed by 1.5 to 2.0 percentage points

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	6/20/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	163.649	+ .380	+12.285
Loans to Depository Inst.	3.421	+ .913	+ 1.709
Float	.754	+ .284	− .812
Total Reserve Bank Credit	176.524	+ 1.999	+13.311
Treasury Deposits with Federal Reserve Banks	4.081	+ .770	+ .243
Currency in Circulation	i74.269	− .139	+13.616
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.336	− 1.110	+ 4.108
	6/20/84		
Member Bank Reserves:			
Total Reserves Held	37.170	+ 1.610	+ 2.135
Excess (Deficiency)	.783	+ .288	+ .374
Net Borrowed Reserves	.419	− 1.961	+ .302
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (6/11/84)	548.2	+ 8.1	+ 7.0
M2 (May '84)	2,259.6	+ 6.7	+ 7.5
M3 (May '84)	2,814.9	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 6/22/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.90%	10.60%	11.15%
* Federal Agencies	10.60[1]	11.40	12.10
* Project Notes—Taxfree (46% Taxable Equivalent)	9.91	10.56	11.76
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.75	12.15	13.00

‡Finance Company Paper—Prime

5- 14 days	10.65%
15- 29 days	11.00
30- 59 days	10.90
60- 89 days	10.80
90-179 days	10.70
180-239 days	10.60
240-270 days	10.60

‡* Bankers' Acceptances

Jul.	11.40%
Aug.	11.45
Sep.	11.45
Oct.	11.50
Nov.	11.60
Dec.	11.55

‡Industrial Paper—Prime

30- 89 days	11.15%
90-120 days	11.25

†Federal Funds Effective Rate 11.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,550r	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,609r	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	9.7r	5.0	2.6
Change in Consumer Prices (new series)*	May '84n	2.4%	6.0%	4.8%
Change in Producer Prices*	May '84	0.0%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	May '84	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force†	May '84	7.5%	7.8%	10.1%
Personal Income*	May '84n	$ 2,979	$ 2,961r	$ 2,719
Leading Indicators Composite Index (1967=100)†	Apr '84	167.8	166.9	152.5
Industrial Production Index (1967=100) †	May '84	163.2	162.5	144.4
Net Change in Consumer Installment Credit †	Apr '84	$ 6.41	$ 5.87	$ 2.04
U.S. Merchandise Trade Balance †	Apr '84	−$ 12.19	−$ 10.26	−$ 4.73
Plant and Equipment Expenditures* ‡	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	May '84n	1,782	1,990r	1,779
New Construction Expenditures*	Apr '84	$ 302.5	$ 302.0	$ 247.4
Total Business Inventories †	Apr '84	$ 540.9	$ 532.8	$ 500.3
Total Business Sales †	Apr '84	$ 404.6	$ 401.9	$ 351.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
‡Series has been redefined.

in the past six months, rates on personal loans remained virtually flat. In addition, use of credit remains low, relative to incomes. Thus, consumers have been able to tap their credit lines, boosting spending further.

On the other hand, today's high level of interest rates is having some braking effect. Such interest rate-sensitive sectors as housing and automobiles have already begun to slow. With fixed-rate conventional mortgage rates ratcheting to almost 15 percent in recent weeks, many would-be home-buyers are being priced out of the new home market. As a result, new single-family home sales declined in March and April and builders' inventories of unsold homes increased to a 6.2 months' supply. Not surprisingly, starts for the construction of single-family homes declined 8¼ percent in May. Diminished building activity has already translated to a decline in the production of construction supplies in May.

So, too, sales of U.S.-made cars are beginning to cool off. In the first ten days of June, sales of domestically-produced cars ran at a 7.8 million unit, seasonally adjusted pace, substantially below the 8.6 million unit annual rate for the month of May. And while the slowdown in sales may be attributed to continuing shortages of many popular models, it also reflects growing consumer concerns about rising interest rates that have begun to spread to new car loans. M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (6/6/84)	153,170	+ 264	+ 6,775
New York City (6/13/84)	33,894	+ 628	+ 1,629
Commercial Paper (6/13/84)	217,626	+ 3,160	+47,258

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/6/84)	240,975	+ 1,177	+26,128
New York City (6/13/84)	63,771	– 347	+ 6,041

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/6/84)	608,137	+ 481	+86,417
New York City (6/13/84)	137,511	– 854	+18,204

Financial Markets

	Friday 6/22/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.33%	+ .08	+ 1.01
180-Day Bills†	11.41	+ .36	+ 1.82
Longest Bills†	12.31	+ .46	+ 2.50
Recent Issues:			
13s 6/30/86 (When Issued)	13.16	NA	
12s 3/31/88	13.55	+ .55	
13⅛s 5/15/94	13.77	+ .57	
13¼s 5/15/14	13.54	+ .39	
Municipals:			
Bond Buyer–20 Bond Index* (6/21/84)	10.56%	– .03	+ 1.18
Blue List Total ($ Million)	$1,114	+ $ 32	+ $ 10
30-Day Visible Supply ($ Million)	$2,257	+ $261	+ $1,165
Total	$3,371	+ $293	+ $1,175
Corporates:			
Moody's Aa Composite (6/21/84)	14.35%	+ .09	+ 2.24
30-Day Visible Supply ($ Million)	$ 272	– $ 18	– $ 505
Stocks:			
Dow-Jones Averages:			
Industrials	1,131.07	+ 44.17	– 110.62
Transportation	475.10	+ 17.08	– 114.19
Utilities	124.37	+ 2.07	– 4.04
65 Stocks	439.24	+ 15.34	– 55.49
Standard and Poor's 500 Stocks	154.46	+ 5.43	– 15.94
N.Y.S.E. Composite Index	89.07	+ 2.90	– 9.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	100,992	+23,620	+ 7,402

* 46% Taxable equivalent 19.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/22/84	Week Ago
Overnight	11.63%	11.25%
1 month	11.94	11.31
3 month	12.13	11.44
6 month	12.56	12.19
1 year	13.50	13.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.50%	13.30%
Long Term (7 to 15 yrs.)	13.80	13.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/22/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01764	56.68
Canada	.7653	1.3067
Denmark	.09809	10.1950
France	.1169	8.5550
Germany	.3589	2.7865
Italy	.0005816	1,719.50
Japan	.004247	235.45
Mexico	.005222	191.50
Netherlands	.3187	3.1375
Switzerland	.4312	2.3190
U.K.	1.3625	.7339

POSITIONED FOR GROWTH

At Manufacturers Hanover Mortgage Corporation, we are positioned for growth. Throughout the early eighties—into 1984—and beyond. A position solidified by ten record-setting years of mortgage originations—targeted at $1 billion in 1983—a servicing portfolio approaching $10 billion at the end of 1983—and 1983 commercial placements exceeding $200 million.

To build solidly on this growth, the newly established Manufacturers Hanover Mortgage Securities Corporation will enable us to market mortgage-backed securities more effectively. Our new Wholesale Division allows us to expand our aggressive purchased servicing activities. And, the 28-office MHMC branch network, with state-of-the-art communications capability, continues to expand our market and better serve our customers, nationwide.

No, we haven't arrived. But we have passed through crossroads leading to new eras of planned growth. And, as in the past, our basic building blocks continue to be Quality, Loyalty and Consistency. Some things shouldn't change.

MANUFACTURERS HANOVER MORTGAGE CORPORATION

27555 Farmington Rd. • Farmington Hills, MI 48018

EQUAL HOUSING LENDER

A SUBSIDIARY OF MANUFACTURERS HANOVER CORPORATION

The Manufacturers Hanover **Financial Digest**

Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00208000006990 C 39 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014